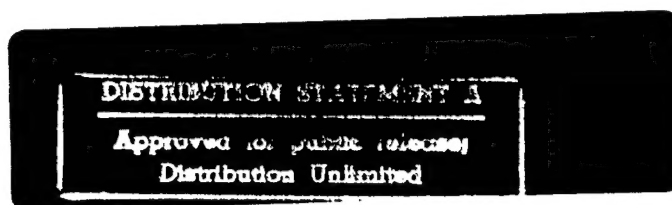


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DEFENSE DEPOT MAINTENANCE

DOD's Policy Report Leaves Future Role of Depot System Uncertain



National Security and
International Affairs Division

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The Honorable Strom Thurmond
Chairman
The Honorable Sam Nunn
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Floyd Spence
Chairman
The Honorable Ronald Dellums
Ranking Minority Member
Committee on National Security
House of Representatives

As required by section 311 of the National Defense Authorization Act for Fiscal Year 1996, this report provides our analysis of the Department of Defense's (DOD) report, Policy Regarding Performance of Depot-Level Maintenance and Repair, which was submitted to Congress April 4, 1996. Specifically, our analysis of the policy report addresses (1) the likely future role of defense depots, (2) the adequacy of the depot maintenance policy's content, and (3) the inconsistency of DOD's policy with current statute and congressional direction in section 311 regarding the use of public-private competitions. Our recent depot maintenance testimonies discussed our preliminary findings on the policy report; this report provides our overall analysis.¹

Background

DOD annually spends about \$15 billion on depot maintenance activities at 29 major defense depots and at about 1,300 private contractors. Depot maintenance involves repairing, overhauling, modifying, and upgrading defense systems and equipment. It also includes limited manufacture of parts, technical support, modifications, testing, and reclamation as well as software maintenance. The primary depot maintenance workloads assigned to DOD depots are those required to sustain core maintenance capabilities. Core maintenance capability is the skilled personnel, facilities, and equipment maintained at organic defense depots to meet the readiness and sustainability requirements of the weapon systems that support the Joint Chiefs of Staff contingency scenarios. Core maintenance

¹Defense Depot Maintenance: Privatization and the Debate Over the Public-Private Mix (GAO/T-NSIAD-96-146, Apr. 16, 1996, and GAO/T-NSIAD-96-148, Apr. 17, 1996).

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capability exists to minimize operational risks, guarantee readiness of weapon systems in war or contingency situations, and ensure a ready and controlled source of technical competence.

A combination of factors has created extensive excess capacity in the DOD depot system. These include (1) the downsizing of the armed forces due to the end of the Cold War; (2) efforts by some DOD components to conduct more repairs in field-level maintenance activities; (3) contracting out more depot work to the private sector; and (4) the increased reliability, maintainability, and durability of most military systems and equipment. While depot maintenance personnel in DOD depots have been reduced by 43 percent since 1987, similar depot infrastructure reductions have not been made. As of 1996, excess capacity in the DOD depot system is projected to be about 40 percent, using an analysis of maximum potential capacity and programmed workload as the basis for comparison and assuming a 5-day week, one 8-hour-per-day shift operation. The excess capacity varies in each service from a low of 33 percent in naval aviation, to 35 percent for naval shipyards, 42 percent for the Army, and a high of 45 percent for the Air Force.

Some initiatives—namely consolidating workloads, implementing competition between government depots and the private sector, mothballing depot plant equipment, and tearing down unused buildings or converting them to other military uses—have been used to reduce some of the excess capacity. However, depot downsizing has largely occurred through the Base Realignment and Closure (BRAC) process. Fifteen depots have closed or are in the process of being closed as a result of BRAC decisions.² While this will eliminate some excess capacity, privatization-in-place rather than closure and consolidation of workload in remaining depots has been proposed for seven depots recommended for closure or realignment. Privatization-in-place will result in privatizing excess capacity rather than eliminating it.

Various statutes affect the mix of depot maintenance workload between the public and private sectors. Title 10 U.S.C. 2464 requires the Secretary of Defense to identify core logistics activities and to maintain them within DOD depots unless the Secretary specifically waives that requirement. Title 10 U.S.C. 2466—referred to as the “60/40” rule—states that no more than 40 percent of the depot maintenance funds made available in a given fiscal year may be spent for depot maintenance conducted by nonfederal

²Additionally, the Red River Army Depot, which is being realigned rather than closed is not included in this number.

personnel. Title 10 U.S.C. 2469 provides that DOD-performed depot maintenance and repair workloads valued at not less than \$3 million cannot be changed to performance by another DOD activity without the use of merit-based selection procedures for competitions among all DOD depots and that such workloads cannot be changed to contractor performance without the use of competitive procedures for competitions among private and public sector entities. DOD has requested relief from the last two provisions and from other statutes affecting competition and privatization. For example, the Department provided Congress a list of statutory encumbrances to privatization, including:

- 10 U.S.C. 2461, which requires studies and reports before conversion to contractor performance;
- 10 U.S.C. 2465, which prohibits contracts for performance of firefighting or security guard functions;
- section 8050 of the DOD Appropriations Act for Fiscal Year 1996, which permits public-private competition, but requires certification that bids include comparable estimates of costs from public and private sector bidders;
- section 317 of the National Defense Authorization Act for Fiscal Year 1987, Public Law 99-661, which prohibits the Secretary of Defense from contracting for the functions performed at Crane Army Ammunition Activity or McAlester Army Ammunition Plant;
- 10 U.S.C. 4532, which requires that the Army shall have supplies made by factories and arsenals if it can do so on an economical basis; and
- 10 U.S.C. 2305 (a) (1), which specifies that in preparing for the procurement of property or services to be acquired, the Secretary of Defense shall specify the agency's needs and solicit bids or proposals in a manner designed to achieve full and open competition.

In May 1996, DOD proposed a provision that would allow the Secretary of Defense to acquire by contract from the private sector or any nonfederal government entities those commercial or industrial type supplies and services necessary or beneficial to the accomplishment of DOD's authorized functions, notwithstanding any provision of title 10 or any statute authorizing appropriation for or making DOD appropriations.

Section 311 of the National Defense Authorization Act for Fiscal Year 1996 provides an indication of congressional intent regarding the continued need for DOD depots:

"It is the sense of Congress that there is a compelling need for the Department of Defense to articulate known and anticipated core maintenance and repair requirements, to organize the resources of the Department of Defense to meet those requirements economically and efficiently, and to determine what work should be performed by the private sector and how such work should be managed."

Section 311 also directed the Secretary of Defense to develop a comprehensive policy on the performance of depot-level maintenance and repair for DOD that maintains the core capability described in 10 U.S.C. 2464 and to report to the Senate Committee on Armed Services and House Committee on National Security. The section further directed that in developing the policy, the Secretary should include certain elements, such as providing for public-private competitions and performance of new workloads defined as core in DOD depots. Congress wanted assurance from DOD that essential organic core requirements would be sustained before it would consider the repeal of 10 U.S.C. 2466 and 2469.

The DOD report, Policy Regarding Performance of Depot-Level Maintenance and Repair, was submitted to your committees on April 4, 1996. We were required to report our analysis to Congress 45 days after the DOD report was submitted. Our analysis of DOD's depot maintenance workload distribution report is provided separately in a companion report.³

Results in Brief

The DOD depot maintenance policy report to a certain extent addressed each of the elements required by section 311 of the 1996 DOD Authorization Act and the report also provided some information not requested. However, the policy is only a framework, is vague in several areas, and provides wide latitude regarding how certain policies and concepts will be implemented. Consequently, a precise analysis in all areas is not possible. Notwithstanding the report's limitations, our review shows the following key points:

- The policy calls for a clear shift to a greater reliance on private sector maintenance capabilities than exists today. For example, DOD's future public-private workload mix projections call for about a 50-percent split by fiscal year 2001. Given the uncertainty of how the workloads will be assigned under the policy and concerns we have about how DOD evaluates

³Defense Depot Maintenance: More Comprehensive and Consistent Workload Data Needed for Decisionmakers (GAO/NSIAD-96-166, May 21, 1996).

this data, it is likely the private sector percentage will be higher than 50 percent.⁴

- The policy is vague or provides wide implementation latitude in a number of key areas, leading to questions as to what the practical effects it could have once implemented. For example, the policy incorporates a new process for performing risk assessments to determine which mission essential maintenance requirements should be privatized. However, guidance and criteria have not been provided for making the assessments. Consequently, each service is now independently developing its own methodologies for doing these assessments. Until this is done, or preferably a single DOD methodology is adopted, and these assessments are conducted, it is impossible to estimate with any precision the future public-private depot maintenance workload mix.

The policy for determining the source of repair for new systems being brought into the DOD inventory also is vague and provides wide implementation latitude. The DOD policy provides a preference for maintaining new systems in the private sector. While the policy recognizes that some core capability will be maintained in the DOD depot system, it is uncertain what these capabilities will represent in terms of workloads and facilities. The policy establishes total life-cycle contractor logistics support as the preferred future model for maintaining new systems that are not identified as core. Contractor logistics support, which generally involves long-term, sole-source contracting with the original equipment manufacturer, has historically been used for military systems that are the same as or derivatives of commercial systems. For these systems, the existence of extensive supply and maintenance capability in the private sector increases the probability that long-term support in the private sector would be more cost-effective than transitioning the system to DOD depots for support. However, it is unclear that this will be the most cost-effective long-term approach for military unique defense systems. Other areas, such as the acquisition of technical data and other resources to support a competitive environment, use of interservicing, and environmental liability, are similarly vague or also provide wide latitude for implementation.

- The policy is inconsistent with congressional direction calling for competition between public-private entities for noncore work. Section 311 directs that DOD's policy should provide for competition between public and private entities for noncore workloads when there is a sufficient potential for realizing cost savings based on adequate private-sector

⁴This issue is discussed further in our companion report.

competition and technical capabilities. Instead, DOD's policy is to exclude DOD depots from competing except when there is not adequate private sector competition. Under this policy, DOD depots would not be allowed to compete for noncore workloads when there is adequate private sector competition, even though they may offer the most cost-effective source of repair.

Given the uncertainties associated with the implementation of DOD's depot maintenance policy, its precise effects on such factors as the public-private mix of work, cost-effectiveness of operations, and excess capacity in the existing DOD depot system are uncertain. However, a possible result is a less cost-effective public depot system than exists today. Central to avoiding this situation is developing an approach that allows for excess capacity reduction and vigorous public-private competition between the remaining DOD depots and commercial firms. Also, it will be important to increase the competitiveness of the private sector market. Our report contains matters for congressional consideration and recommendations to DOD.

DOD Depots Will Have a Future Role, but Will Be Smaller Than Before

DOD and Congress are defining the role of DOD depots in the post Cold-War era. The new model for managing depot maintenance has not yet emerged. However, given DOD's depot maintenance policy report, the model apparently will be a mix of public-private sector capabilities, but with a clear shift toward greater reliance on the private sector. This shift is reflected in DOD policy provisions that (1) call for a minimum core requirement, (2) redefine core to allow for privatizing mission essential requirements previously defined as core, (3) limit public depots from competing with the private sector for noncore workloads, (4) provide a preference for privatizing depot maintenance and repair for new systems, and (5) provide disincentives for depots to compete. DOD's Depot-Level Maintenance and Repair Workload Report, submitted to Congress April 4, 1996, projected a 40-percent increase in the depot work that will be privatized between fiscal years 1997 and 2001. However, since the services have not completed their reassessments of core workload requirements, it is not known how much more of their current and future depot maintenance work will ultimately be determined to be noncore and privatized. Unless effectively managed, including downsizing of remaining depot infrastructure, a major shift in depot workloads to the private sector could exacerbate existing excess capacity in the DOD depot maintenance system and be more costly than the current system.

Historically, depot maintenance on wartime critical DOD systems has been largely performed in DOD depots. Based on both cost and risk factors, the general DOD policy was to rely on DOD depots to provide a cost-effective, reliable source of support for wartime readiness and sustainability. With some exceptions, peacetime maintenance of weapon systems with wartime taskings was performed in DOD depots. This peacetime workload constituted the depot maintenance core. The core was determined by quantifying the depot work that would be generated under war scenarios and then computing the amount of peacetime work needed to employ the number of people and skills necessary to support the anticipated wartime surge. Peacetime workload was composed of a mix of high- and low-surge items, which allowed employees to transfer from low-surge workload to high-surge workload during war. While there were always a number of potential war scenarios, the depots were sized to support a sustained global war.

During the Cold War, there was not much pressure to move work from DOD depots to the private sector. Military leaders expressed a clear preference for retaining much of their work in DOD depots, which were highly flexible and responsive to changing military requirements and priorities. The quality of the DOD depots was high and users were generally well-satisfied with the work. Further, the threat of a global war and the resulting stress on the logistics system were constant reminders of the need to maintain the flexibility and responsiveness the depot system provided.

Historically, DOD has reported that about 70 percent of its depot maintenance work was performed in its depots. In a 1994 testimony, we stated that our work showed that the private sector more likely received about 50 percent of the DOD depot maintenance budget. We noted that a portion of the funds expended on the maintenance workload assigned to the public sector ultimately was used for private sector contracts for parts and material, maintenance and engineering services, and other goods and services. Additionally, some types of depot maintenance activities, such as interim contractor support and contractor logistics support, were not included in previously reported statistics.⁵

With the end of the Cold War and the subsequent declines in defense spending, there are increased pressures to privatize more depot maintenance work. Those declines affected force structure and the public and private activities supporting force structure. As acquisition programs

⁵Depot Maintenance: Issues in Allocating Workload Between the Public and Private Sectors, (GAO/T-NSIAD-94-161, Apr. 12, 1994).

began to decline, a growing concern arose over the impact on the defense industrial base. Particular concern focused on how that industrial base could be maintained without the large development and production programs of the past, and attention began to shift to DOD depot workloads as a potential source of work to keep the industrial base viable.

Advocates of more private sector involvement argue that a shift toward the private sector would not only help keep the private sector production base healthy during a period of reduced weapon procurement but also could lower costs, since the private sector could provide depot maintenance for less than the public sector. Proponents of the DOD depot system believe DOD depots have provided a quality, responsive, and economical source of repair. They note that the DOD maintenance policy for many years has supported the outsourcing of depot maintenance work when it was determined to be cost-effective to do so. Further, they contend there are substantial differences between developing and producing new systems and maintaining fielded ones and that the dollars spent on maintenance, while not small, cannot fill the void created by declining production dollars.

Policy Provides General Framework, but Many Areas Are Vague or Provide Wide Implementation Latitude

DOD's new depot maintenance policy clearly states that, consistent with its core policy, the Department has a preference for privatizing depot maintenance support for new systems and for privatizing existing noncore workload. This represents a fundamental shift in the historical policy of relying on DOD depots to provide for the readiness and sustainment of wartime tasked weapon systems. Although the precise effects of its implementation are unknown at this time, it is likely the DOD depots will have significantly less work than in the past. While the policy recognizes the need to maintain a limited core capability in the DOD depot system, it provides wide implementation latitude that could result in the DOD depot system becoming greatly underutilized and thereby becoming very inefficient and costly. The policy does not address how DOD intends to further downsize its depot maintenance capacity and improve the efficiency and cost-effectiveness of remaining DOD depot maintenance infrastructure.

DOD's report, Policy Regarding Performance of Depot-Level Maintenance and Repair, provides an overall, but limited, framework for managing depot maintenance activities. The policy reiterates some past policies; identifies some new plans and initiatives; references and incorporates a number of other directives, publications, memorandums, and decisions;

and notes that DOD later plans to develop an updated single publication with applicable maintenance policy guidance. The policy and its supporting documentation contain information relating to each of the nine content elements required by Congress, but in varying levels of completeness and detail.

Risk Assessment Policy Could Significantly Reduce Existing DOD Depot Workloads

The policy report does not contain specific direction and criteria for implementing key provisions critical to articulating core requirements and allocating resources between the public and private sectors. This is particularly the case for the core methodology model, which the services are to use to determine core capability requirements and the workloads necessary to sustain these capabilities. While the policy describes the model and provides an overview of its procedures, it does not provide guidance and performance criteria for assessing private sector capabilities, establishing risk thresholds, and making best value determinations. Such guidance is critical to both implementing the model and determining whether mission essential workloads previously determined to be core and performed in public depots can be outsourced at acceptable levels of risk. Until this guidance and criteria are established and implemented, the core requirements that will result from the new policy cannot be predicted with any precision.

Moreover, in the absence of clear "how-to" guidance and criteria, each service is developing its own approaches and methods for implementing the model. Each is independently planning and developing a process for assessing private sector capabilities, determining levels of risk and prudent risk thresholds, and making economy of scale and best value adjustments. Several independent efforts are already under contract. This duplication of effort among the services is costly and will likely result in inconsistent implementation of the methodology. Office of the Secretary of Defense (OSD) officials acknowledged the need to develop and publish standard risk assessments, best value criteria, and other implementing guidance and criteria. However, specific plans and milestones for doing this have not yet been established.

As an indication of how the policy might affect workload allocations, we noted that DOD has recently taken several existing workloads previously defined as core and redesignated them noncore. For example, at the Aerospace Guidance and Metrology Center, the Air Force is privatizing depot maintenance operations involving 627,000 million direct labor hours of work—100 percent of which had been previously defined as

core—stating that because the workload is being privatized in place, the risk is manageable. It is unclear how risky that privatization may turn out to be in light of the contractor's interest in divesting itself of its defense business and the fact that the contractor is not contractually obligated to perform the maintenance work at the privatized facility. A similar rationale is being used to support other in-place privatizations. In addition, the Air Force's selection of five prototype workloads for possible privatization includes work previously classified as core and performed at public depots. For example, 100 percent of the peacetime hydraulics workload at Sacramento Air Logistics Center and 100 percent of the peacetime fuel accessories workload at San Antonio Air Logistics Center are considered core based on military surge requirements to support contingency operations. Core depot maintenance workload at other depot maintenance activities are also being privatized-in-place.⁶

Implementation of Risk Assessment Policy Could Significantly Reduce Core Requirements for New Systems

Section 311 directed that DOD's depot maintenance policy should provide for the performance of maintenance and repair of any new systems defined as core under 10 U.S.C. 2464 in facilities owned and operated by the federal government. Because of the Department's expressed preference for privatizing depot maintenance for future systems and the wide latitude for defining core requirements for new systems, future core requirements for new systems are likely to be far less than in the past. While DOD recognizes the need to retain a limited core capability, it is uncertain whether new systems with wartime taskings will be identified as core after DOD considers privatization through its risk assessment process. As an example of the change in the Department's concept of core, DOD's workload report stated that the Air Force core would represent the capabilities needed to ensure competence in overseeing depot maintenance production that has both public and private sector elements. Further, DOD's 1996 report to Congress, Improving the Edge Through Outsourcing, stated that DOD will consider privatizing other maintenance activities essential for meeting wartime taskings and previously identified as core, such as intermediate maintenance conducted at field operating locations. With such wide latitude for defining core, it is uncertain the extent to which the Department will continue to support wartime mission taskings with DOD core maintenance capability.

⁶We are reporting separately on privatization-in-place plans for these two centers and at Army and Navy Depots.

Most New Systems to Be Maintained by the Private Sector but Implementation Questions Exist

Directions for Defense, the May 1995 report of the Commission on Roles and Missions of the Armed Forces recommended that DOD privatize most existing depot maintenance work and all support for new and future weapon systems. In his August 24, 1995, letter to Congress, the Secretary of Defense agreed with the Commission's recommendations but expressed a need for DOD to retain a limited organic core capability to meet essential wartime surge demands, promote competition, and sustain institutional expertise. DOD established joint teams and working groups to plan and direct efforts aimed at increasing privatization and outsourcing. DOD's January 1996 report, Plan for Increasing Depot Maintenance Privatization and Outsourcing, provides for substantially increasing reliance on the private sector for depot maintenance. It noted that DOD planned to freeze the transition of workloads from the private sector to DOD depots. DOD's March 15, 1996, Instruction 5000.2 stated the following regarding depot maintenance for new systems.

"It is DOD policy to retain limited organic core depot maintenance capability to meet essential wartime surge demands, promote competition, and sustain institutional expertise. Support concepts for new and modified systems shall maximize the use of contractor provided, long-term total life-cycle logistics support that combines depot-level maintenance along with wholesale and selected retail materiel management functions. Life-cycle costs and use of existing capabilities, particularly while the system is in production, shall play a key role in the overall selection process. Other than stated above, and with an appropriate waiver, DOD organizations may be used as substitutes for contractor-provided logistics support, such as when contractors are unwilling to perform support, or where there is a clear, well-documented cost advantage."

The policy and DOD Instruction 5000.2 also change the decision-making chain over workload assignments, the factors considered, and related impacts on core. Previously, the service logistics chiefs, working in conjunction with functional organic depot maintenance and business managers, would make overall core assessments and provide input to source-of-repair decisions on new weapon systems to ensure that overall core capabilities were maintained. The services used a merit-based decision tree to determine source-of-repair assignments based on cost, military risks, and core requirements. DOD's new policies place these fundamental life-cycle support decisions under the service acquisition representatives responsible for the weapon system. It is also unclear how acquisition managers will evaluate whether or not a new system or technology must be sustained organically to support future competition and future depot maintenance core requirements, including retention of required institutional skills. The acquisition community has not been given

a solid framework for making these decisions and there does not seem to be any provision for involving the functional depot maintenance community in the process. Thus, a source-of-repair decision on an individual weapon system may be suboptimal to the entire logistics system and not provide in the aggregate needed core capability.

Cost-Effectiveness of DOD Policy Preference for Contractor Logistics Support Questionable

The policy further establishes contractor logistics support as the preferred management model for new and future systems that are not considered core. Contractor logistics support provides for lifetime support in the private sector, to include depot-level maintenance and repair and, sometimes, supply operations and materiel management functions at retail and wholesale levels. Air Force managers have found this approach to be a cost-effective tool when the system is a commercial derivative, where there is meaningful competition in the private sector for production and repair of the system, and where a logistics infrastructure is already established in the private sector. These conditions are not present for those weapon systems that are military unique and which often represent the cutting edge of technology.

Cost is also a concern when relying on lifetime support arrangements. Under contractor logistics support, the original equipment manufacturer usually receives the contractor logistics support contract, at least for a period of time when the system is first fielded. The manufacturer is usually the only contractor initially capable of producing, modifying, and maintaining the system. Our work has demonstrated how often depot work is sole sourced, often to the original equipment manufacturer, and the implications of sole-source contracting on costs and future competition potential.⁷ For example, the Air Force is achieving significant savings as a result of interservicing its F404 engine to a Navy depot rather than continuing to contract on a sole-source basis with the equipment manufacturer as it had done in the past. Also, the Air Force has reported large contract savings after recompeting some contractor logistics support contracts, often moving the work from the manufacturer to other commercial firms.

Another issue regarding the privatization of new workloads using the contractor logistics support concept is the long-term impact on the depots' ability to provide a credible competitive source and maintain technical competence on new systems, leading edge technologies, and critical repair

⁷Defense Depot Maintenance: Privatization and the Debate Over the Public-Private Mix (GAO/T-NSIAD-96-146, Apr. 16, 1996, and GAO/T-NSIAD-96-148, Apr. 17, 1996).

processes. One stated reason for maintaining core is to sustain in-house technical competence—skilled maintenance workers, engineers, contracting officials, and program managers—to minimize technological risks. Without new work, as older systems are phased out of the inventory, the DOD depots could not remain viable, as they would become obsolete and increasingly inefficient as older workloads dwindled. As the depot technologies aged, it would also be more difficult for management personnel to maintain engineering and technical experience on new technologies performed exclusively in the private sector. DOD officials consider these skills essential for proper management of depot maintenance workload, whether in the public or private sector.

Other Key Policy Areas Are Vague or Provide Wide Implementation Latitude

While DOD's policy report covered to some degree all the elements Congress required, we found some elements to be vague or subject to wide latitude in its implementation. For example:

- Congress required that the DOD policy provide for meeting core depot maintenance requirements economically and efficiently and specified that the depots be assigned sufficient workloads to ensure cost-efficiency during peacetime. DOD's policy states the Department's intention to provide for cost-efficiency, sufficient workload, and technical proficiency in its depots, but does not provide specific plans and processes to do so. On the contrary, the policy's preference for outsourcing new and established workloads and its limitations on doing noncore workloads in public depots would seem, in the long term, to decrease utilization, increase excess capacity, and make depots increasingly inefficient. The policy does not provide for reorganizing, consolidating, or closing additional facilities to deal with the resulting excess capacity and inefficiency. Without such a plan, it is not clear how DOD intends to significantly increase the amount of depot maintenance workload in the private sector while economically and efficiently utilizing its depot capability.
- Congress required that DOD identify depot-level maintenance and repair activities that are necessary to ensure the depot-level maintenance repair capability required by 10 U.S.C. 2464. The DOD report listed current DOD maintenance facilities where core workload is performed, but did not identify information on weapon system workloads and key technology areas that are needed to maintain core capabilities. Further, without having more complete information regarding how repair base and risk assessments are to be conducted, DOD cannot identify what specific

maintenance workloads will be retained in DOD depots as core under its new core methodology.

- In section 311, Congress required that the DOD policy provide for the transfer from one military department to another using merit-based selection processes workloads that supports core depot-level maintenance and repair capabilities. The policy report restates existing policies and procedures and identifies the organizations involved in interservicing decisions. However, it provides no new plans or initiatives. We and others have reported in the past on redundancies and underutilization in DOD's depot maintenance operations and have recommended increased integration of the services' depot maintenance operations. Most recently, we reported that because DOD has made limited progress over the past 20 years in interservicing workloads, it appears unlikely that this cost-reduction tool will be used on a widespread basis. We noted that the continued emphasis on a servicewide core rather than DOD-wide core inhibits interservicing opportunities.⁸ It is unclear how DOD can support interservicing while increasing the number of workloads being privatized. For example, we noted that interserviced workloads have been among the first to be offered for privatization as a result of recent privatization initiatives.
- The policy stresses the importance of acquiring adequate technical data to support competitive procurements and references revised acquisition guidance relative to new systems and modifications. It also discusses at some length new information technology that can improve access to data and its management. It does not discuss or prescribe specific management actions and guidance for resolving data issues on established workloads. An example would be the releasability and transfer of proprietary data on work previously done by the depots but is now outsourced or to be accomplished at privatized-in-place facilities. Our work shows that proprietary data issues are important factors in limiting competitions for depot maintenance contracts.⁹
- Congress provided that the depot maintenance policy address environmental liability, an important issue given the extent of pollution at public depots and plans to close bases and privatize work in place. The policy expresses DOD's intent to use sound management practices to limit and control pollutants and also references Superfund legislation, which makes DOD responsible for cleaning up its facilities and prohibits transfer

⁸Closing Maintenance Depots: Savings, Workload, and Redistribution Issues (GAO/NSIAD-96-29, March 4, 1996).

⁹Aerospace Guidance and Metrology Center: Cost Growth and Other Factors Affect Closure and Privatization (GAO/NSIAD-95-60, Dec. 9, 1994) and Defense Depot Maintenance: Privatization and the Debate Over the Public-Private Mix (GAO/T-NSIAD-96-146, Apr. 16, 1996, and GAO/T-NSIAD-96-148, Apr. 17, 1996).

of property to nonfederal ownership until cleanup is completed or a remedial plan is approved. We have previously reported on increased costs, delayed cleanup, indemnification and sharing of costs with contractors, and other legal issues associated with Superfund and DOD's environmental liability.¹⁰ One of the key issues is how environmental liability will be handled at closing industrial facilities. The report stated that environmental restoration liability must be addressed when DOD closes, sells, donates, or operates as a government-owned, contractor-operated facility, but it did not provide any specifics. Further, the policy does not address the environmental liability for private contractors performing depot maintenance work.

Effective Implementation Requires Excess Capacity Reduction and a Competitive Environment

The policy's determination to (1) size depots to a minimum core workload, (2) limit public-private competitions to relatively minor and obsolete workloads, (3) reduce other depot work by the amount won during competitions, (4) restrict the depot's ability to obtain new workloads, and (5) apply best value concepts only for last-source workloads and other work the private sector cannot or will not provide will decrease the maintenance workloads assigned to DOD depots. The combination of these conditions—if not effectively managed to include further reductions in infrastructure and development of competitive markets—would likely result, over the long term, in DOD depots becoming an economic liability rather than a cost-effective partner in the total DOD industrial base. The DOD policy report states that the Department will provide for cost-efficiency, sufficient workload, and technical proficiency in its depots. However, accomplishing this objective will be difficult because the depots already are underutilized and the policy providing for additional outsourcing would exacerbate that situation, unless there are additional depot closures. Further, the report does not provide a clear indication, aside from recognizing ongoing base closure and realignment decision actions, about how the Department intends to downsize to minimum core.

¹⁰Military Bases: Environmental Impact at Closing Installations (GAO/NSIAD-95-70, Feb. 23, 1995).

DOD Policy Is Inconsistent With Congressional Guidance With Respect to Competing Noncore Workloads Maintained in DOD Depots

Section 311(d)(5) of the act provides that for depot maintenance workloads in excess of that required to be performed by DOD depots, (i.e., noncore workloads), DOD's policy should provide for competition "between public and private entities when there is sufficient potential for realizing cost savings based upon adequate private-sector competition and technical capabilities." DOD's policy is inconsistent with this instruction. According to DOD, it will engage in public-private competition for workloads in excess of core only when it determines "there is not adequate competition from private sector firms alone." The report did not clarify what would constitute adequate competition. Under this policy, DOD depots would be used sparingly for public-private competitions and DOD depots cannot compete for all noncore workloads where "adequate private sector competition" exists, even though they may offer the most cost-effective source of repair. Also, if a competition were conducted and a DOD depot won, the current DOD policy provides for reviewing the depot's other existing workloads for possible outsourcing or interservicing. This workload displacement provision, in effect, creates a disincentive for DOD depots to compete.

Closely related to competition issues is the concept and application of best value. The policy mentions best value many times, but usually in reference to private-private competitions. The policy excludes DOD depots from a best value analysis for workloads judged to have sufficient private sector competition. The policy does provide for including DOD depots for best value assessments in situations where there is limited competition, the government is the last source of repair, or the private sector cannot or will not compete.

We have reported that public-private competition can be a beneficial tool for determining the optimum cost-effective source of repair for noncore workloads. As noted in our recent reports on the Navy's depot maintenance public-private competition programs for ships and aviation, we found that these competitions generally resulted in savings and benefits and provided incentives for DOD depot officials to reengineer maintenance processes and procedures, to develop more cost-effective in-house capability, and to ensure that potential outsourcing to the private sector is more cost-effective than performing the work in DOD depots.¹¹

We recognize the public-private competition concerns about the reliability of DOD's depot maintenance data and the adequacy of its depot

¹¹Navy Maintenance: Assessment of the Public-Private Competition Program for Aviation Maintenance (GAO/NSIAD-96-30, Jan. 22, 1996) and Navy Maintenance: Assessment of the Public and Private Shipyard Competition Program (GAO/NSIAD-94-184, May 25, 1994).

maintenance management information systems. However, these deficiencies are not insurmountable. As we discussed in our prior reports on the public-private competition program, many of the problems were internal control deficiencies that can be addressed with adequate top-level management attention. Further, we noted that some corrective actions have already been undertaken and additional improvements can be made. We recommended that the Defense Contract Audit Agency be used to certify internal controls and accounting policies and procedures of DOD depots to ensure they are adequate for identifying, allocating, and tracking costs of depot maintenance programs and to ensure proper costs are identified and considered as part of the offers by DOD depots. DOD has stated that it plans to use the Defense Finance and Accounting Service to review and certify the accounting systems of DOD depots.

Matters for Congressional Consideration

Since DOD's policy report did not provide for public-private competition consistent with the direction of section 311 of the 1996 Defense Authorization Act, Congress may wish to consider providing new direction regarding DOD's use of public-private competition and the manner in which those competitions should be conducted.

Recommendations

We recommend that the Secretary of Defense:

- Direct the military services to work with OSD to jointly develop consistent policies and methodologies for assessing private sector repair capabilities and determining prudent risk thresholds for assigning mission essential workloads to the private sector. The methodology should, at a minimum, identify specific qualitative and quantitative factors to be evaluated in this process.
- Establish specific milestones for completing the new depot maintenance policy and individual guidance and criteria necessary to the implementation of the policy's various components.
- Develop a set of measurable goals to determine if DOD's depot maintenance policy is achieving the desired objectives, such as eliminating excess depot maintenance capacity, restructuring remaining depots to improve their efficiency and capacity utilization, decreasing depot maintenance costs, and improving readiness.

Agency Comments

DOD officials commented orally on a draft of this report. These officials stated that DOD only had a short time to develop the policy and workload reports. However, they believe the reports were comprehensive and provided more than was required by the 1996 Defense Authorization Act. Nonetheless, the officials generally concurred with the findings and recommendations in this report. We have made technical corrections in several areas to address their comments.

Scope and Methodology

We reviewed DOD's report, Policy Regarding Performance of Depot-Level Maintenance and Repair, which was submitted to Congress April 4, 1996. We compared the report's provisions against the congressional content requirements and other considerations in section 311 of the National Defense Authorization Act for Fiscal Year 1996. We identified areas of compliance and areas where the policy was inconsistent or had potential adverse impacts or significant management challenges. From each military service, we obtained back-up data, comments on the policy, and report inputs. We evaluated related events and management actions, including OSD and service privatization and outsourcing plans, revised acquisition policy guidance, and results from recent source-of-repair assignment decisions and interservicing. We drew extensively from information gathered in our related reviews of depot maintenance, including privatization-in-place, closing depots, public-private competitions, and depot maintenance contracting.

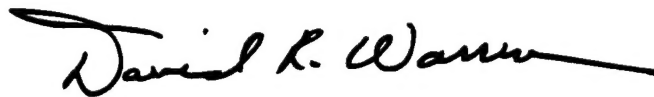
We interviewed officials and examined documents at OSD and Army, Navy, Marine Corps, and Air Force headquarters, Washington, D.C.; Army Materiel Command, Alexandria, Virginia; Naval Air Systems Command, Arlington, Virginia; Naval Sea Systems Command, Arlington, Virginia; Marine Corps' Logistics Plan and Strategic Mobility Division, Arlington, Virginia; Air Force Materiel Command, Wright-Patterson Air Force Base, Ohio; Naval Aviation Depot, Jacksonville, Florida; Ogden Air Logistics Center, Ogden, Utah; Oklahoma City Air Logistics Center, Oklahoma City, Oklahoma; and Warner Robins Air Logistics Center, Warner Robins, Georgia.

We conducted our review from February to May 1996 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Chairmen and Ranking Minority Members, House and Senate Committees on Appropriations, the

Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight; the Secretaries of Defense, the Army, the Navy, and the Air Force; and the Director, Office of Management and Budget.

Please contact me at (202) 512-8412 if you or your staff have any questions. The major contributors to this report are listed in appendix I.

A handwritten signature in black ink, reading "David R. Warren". The signature is fluid and cursive, with a long horizontal stroke at the end.

David R. Warren
Director, Defense Management Issues

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